



Preparation of the Municipal Audit File

Introduction

In order to facilitate and manage an efficient and organised audit process, it is necessary for the municipality to compile an audit file - the thorough preparation of a municipal audit file prior to the commencement of the audit will greatly streamline the audit process and lead to improvements in the audit outcome. The file should be prepared under the direction of the Chief Finance Officer and signed by the Municipal Manager before submission to the Auditor at the first meeting prior to commencement of the audit.

This Circular is intended to assist all municipalities in streamlining their audit preparation process, to provide appropriate and relevant information required by the Office of the Auditor-General for the purpose of completing the annual audit on a timely basis, and also complements the content of MFMA Circular 36.

The document requirements recommended in this Circular have been prepared in consultation with the Office of the Auditor-General supported by additional information recommended by National Treasury. This set of requirements may vary from municipality to municipality and is dependent on: individual issues faced by each municipality; on the specific requirements of the Auditor-General, which may vary from year to year; and on the timing of the commencement of the audit. The municipal audit should not vary substantially from municipality to municipality and the audit is guided by the legal framework, accounting standards and disclosures applicable to the municipality.

The Municipal Audit File

The municipal audit file is essentially a set of documents which is prepared, collated, clearly referenced and put in an appropriate order by the municipality to support the figures in the trial balance and ultimately in the financial statements.

This file of information once assembled should then be checked, verified for completeness and accuracy and then provided to the Auditor-General prior to commencement of the audit so that it can be reviewed before the audit commences. It is anticipated that this will streamline the audit process and address many of the queries which may arise during the course of the audit.

Please note that this Circular does not attempt to provide a complete guide to preparing for a regularity audit, which must be developed by the municipality mindful of other deadlines such as those relating to the preparation of the annual budget, annual report, report by the audit committee and the oversight report (it may be useful for municipalities to refer to the Schedule of Key Dates Calendar and Desk Diary provided by National Treasury for further guidance).

Verification and support of information in financial statements

The purpose of the municipal audit is to provide an opinion on whether the financial statements are free from material misstatements whether due to fraud or error. In order to do this the Auditor-General require information to support the financial and non financial information in the annual financial statements, specifically the balance sheet (or the Statement of Financial Position), the income and expenditure statement (or the Statement of Financial Performance), the statement of cash flows, and the statement of net assets on which they can perform their audit procedures. These statements also contain a number of disclosures that are included by the municipality to provide greater detail of important matters, such as policies and detail on investments, borrowings, councillors' and staff remuneration and detail of any special transactions that may have taken place during the year, etc.

Order of information to be provided

The order of documentation that appears in the municipal audit file should generally follow the order of information that appears in the annual financial statements as indicated in GRAP. The information should also support transactions processed in response to specific GRAP requirements such as those impacting the carrying value of assets (e.g. impairment of debtors).

Content of the file

This Circular provides additional detail on audit file content but this will vary from municipality to municipality dependent upon individual circumstances and the Auditor-General's needs at that time. The Chief Finance Officer should provide guidance over exactly what information should be submitted, which will be determined from previous discussions with the Auditor-General. Particular attention should be paid to providing information relating to how matters that were subject to qualifications in the previous year have been addressed.

The type of information which should be included following previous years' audits is provided in Annexure A. Further information may be requested by the Auditor-General during the audit and for a financial audit; hence this list is not necessarily exhaustive. Additional information should be included by the municipality if required, dependent upon its discussions with the Auditor-General.

Preparation and coordination

Once the Municipal Manager and/or Chief finance Officer sign off on the type of information required for inclusion in the audit file, a finance official should be delegated the task to coordinate the information. This should be prepared by an official from the municipal Budget and Treasury office under the supervision of the Chief Finance Officer.

Often the coordinating official will be the first direct point of contact with the Auditor-General on all operational matters as they arise, hence the official will be fully aware of ongoing audit issues and the specific information requirements of the auditor based on earlier experience.

That officer may also act in a role that facilitates the interactions between the Budget and Treasury office, internal audit unit and audit committee where required, and should be ideally someone who has extensive knowledge and experience of municipal audit procedures.

This role is important, to ensure that the information provided by the various sections of the Budget and Treasury office (and possibly other departments) is timely and accurate and that the documentation is appropriately catalogued and referenced, highlighting reconciliation figures where they appear i.e. ensuring that the closing balance of a bank account reconciles with the figure that appears in the bank reconciliation.

In order for this process to run smoothly, and to ensure that the file is ready in time for audit, it is recommended that a timetable be developed to integrate the various deadlines of each contributor into the completed document – such a timetable should provide advance warning of deadlines to contributors.

Verification and authorisation

This timetable must have built in appropriate timeframes to allow a draft audit file to reach the Chief Finance Officer, well before it is to be sent to the auditor – this will allow senior management with sufficient time to review the documentation and anticipate remedial action where necessary.

Upon amendment and completion, the file should be verified by the Chief Finance Officer and provided to the Municipal Manager for authorisation prior to discussion with the auditor. These organisational processes may vary dependent upon the size and individual circumstances of the municipality, however, the general intent of this process should be adhered to as far as possible.

Distribution

Individual section heads in the Budget and Treasury office responsible for contributing to the content of the municipal audit file should all be aware of the content of the file as a whole and its relevance to different audiences.

It is recommended that this information be discussed with the internal audit unit prior to distribution, and copies should be retained by the Municipal Manager, Chief Finance Officer, official responsible for coordinating this activity and key finance personnel so that they are able to answer questions on its content where necessary.

Internal audit

Management can decide on wider distribution of the audit file. It is recommended that the file be discussed and provided to the internal audit unit of the municipality as this unit should also be providing a central resource to monitor compliance within the municipality.

Communication channels

Further distribution of the audit file, should be accompanied with clear guidance on the varies roles and responsibilities of officials, to encourage an environment of clear and transparent communication across the municipality to its various stakeholders associated

with the audit, including the Municipal Manager, Chief Finance Officer, Budget and Treasury office, internal audit unit, audit committee, council, council oversight committee, the Auditor-General and the general public.

It is anticipated that the municipality will maintain an ongoing dialogue with its auditors throughout the course of the financial year, making available key officials during the audit process to address enquiries as they emerge. Ideally, progress to remedy past matters of concern, audit queries and qualifications should be provided to the auditor on an ongoing basis and problems experienced during the year should be recorded and discussed, and where possible rectified so that there are few surprises encountered by either party during the course of the audit.

Conclusion

This circular focuses on the approach and content of an audit file to enable a smooth audit process. It provides details in Annexure A and requires verification of information contained in the annual financial statements of the municipality, with many other types of information which the municipality or auditor may view as necessary for good governance. For instance, legislation such as the DoRA may prescribe specific information for remittance of certain grant expenditures.

In order to keep the audit file at manageable levels, the inclusion of summary transaction reports, reconciliation and electronic drafts may be considered – references to more detailed information should however be provided in the summary report.

It is to be anticipated that municipalities will continue to make incremental improvements to the way they manage the audit process each year resulting in an improved audit outcome.

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Annexure A – Information to be included in the audit file

Item in Financial Statements	Verification in Audit File
Statement of Finance Position (Balance Sheet)	
Statement of net assets	
Accumulated surplus	Journals and supporting documentation for all prior period corrections, changes in accounting policies
Funds / Reserves	Journal entries and supporting information for all movements in reserves
Non-current liabilities	
Long-term liabilities – e.g. loans	Loan Register or Register of Debentures – highlighting both short and long term components of loan liability, with redemption tables as per loan agreements properly authorised showing purpose of loan/borrowing. Confirmation from lenders of balance and interest paid
Current liabilities	
Creditors	<ul style="list-style-type: none"> • Creditors trial balance and control account – total value of creditors to reconcile with trial balance showing creditor name, value and age of liability. Rationale for late payments of individual creditor accounts. Reference to file of creditor's statements • Schedule of deposits paid for services to be supplied, reconciled to accounts receivable listing • Schedules in support of all other liabilities such as rehabilitation provisions, commitments and contingent liabilities
Unspent grants	End-of-year grant returns reconciled – work in progress statements where applicable. The auditor-general must comment on the performance of the municipality with regards to spending and measurable outcomes achieved on the DoRA allocations.
VAT	VAT reconciliation – highlighting total amount paid and owing with copies of SARS returns
Current portion of long-term liabilities	See Loan Register
Bank overdraft	Bank statements, reconciliations, bank confirmation
Non-current assets	
Property, plant and equipment	Assets Register – clearly indicating opening balances, write-offs, purchases and disposals including dates with values (must contain adequate detail to trace asset from register to physical asset). Information on how the residual values and useful lives have been established. Detailed evidence in support of asset valuations undertaken. Evidence of the physical verification undertaken on assets.
Stores / consumables	Documentation to support regular stock-takes / inventory counts. Evidence regarding valuations and impairments and reconciliation of any losses
Long-term receivables	Supporting agreements – historical data on progress, confirmations
Current assets	
Debtors	Debtors trial balance and control account - total value of debtors to reconcile with trial balance showing debtor name, value and age of debt. Action taken to recover. Full information and authorization for write-offs and impairments
Current portion of long-term debtors	See supporting agreements and debtor information
Bank balances and cash	Bank statements, reconciliations, bank confirmations on balances and interest earned
Investments / short term deposits	Investment Register – highlighting both short and long term investments / deposits supported by investment certificate, highlighting investments made, withdrawals,

	interest accrued, other charges with the appropriate authorizations. Valuations and impairments if required.
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Statement of Financial Performance (Income and Expenditure Statement)

Revenue	
Programme reporting i.e. property rates	All programme balances to be supported by the figures contained in the trial balance and other source documentation pertinent to the programme i.e. valuation role reconciled to rate book with third party confirmation
Expenditure	
Programme reporting i.e. employee costs	All programme balances to be supported by the figures contained in the trial balance

Other Documentation

Standard accounting source documentation	Electronic and hard copies – End of financial year adjustment journal, general journal, trial balance, subsidiary ledgers, general ledger also cash book, valuations register, rate book, calculations relating to consolidation of accounts, register of legal documents (contracts etc), performance contracts (employee terms and conditions)
Accruals	Schedule of non-standard accruals with supporting documentation and appropriate authorizations
Prepayments	Schedule of all prepayments with supporting documentation and appropriate authorizations
Suspense accounts	Evidence to show clearance of all suspense accounts at year end reconciling to the trial balance – where suspense accounts are not cleared, provide a detailed motivation to explain together with planned actions to rectify
Control accounts	Evidence to show balancing of all control accounts at year end reconciling to the trial balance – where suspense accounts are not cleared, provide a detailed motivation to explain together with planned actions to rectify
Payroll	Monthly certified payroll reconciling to relevant control accounts, employee policies
Other	Strategic plan, risk assessment, risk strategy, performance information, fraud prevention plan, minutes of meetings of council etc
Evidence of strategic planning	IDP evaluation and SDBIP – with linkages to MTREF Finance related policies and procedure manuals. The auditor-general should place comment on the performance of the municipality with regards to implementation and management of all revenue related policies.
Internal audit	Audit plan, charter, reports
Auditor-General / Audit Committee	Evidence of remedial action taken to address previously raised matters of concern, audit queries or qualifications, minutes of meetings. The auditor-general must comment on whether the Municipal Council is performing its monitoring and oversight function on the reports that are tabled by the audit committee. Progress reports from audit committee, measures taken by municipality to address outstanding concerns